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**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D. C.**

FCC MAIL ROOM

In the Matter of)
)
International Settlement Rates)

IB Docket No. 96-261

February 4, 1997

TO : The Commission

COMMENTS OF THE RPOAs OF THE REPUBLIC OF KOREA

The RPOAs of the republic of Korea, by their attorney, hereby submits these comments in response to the Notice of Proposed Rulemaking (FCC 96-484) released by the Commission in the above captioned proceeding on December 19, 1996 (hereinafter "NPRM").

The RPOAs of the Republic of Korea have supported the basic principles of the ITU-T Recommendation D.140 stipulating cost-orientation, non-discrimination by region, transparency in accounting and phased reduction of accounting rate. Pursuant to its guidelines, Korea's RPOAs have made their best efforts to reduce the accounting rate for US carriers to about 40% in recent years and 28% for other major carriers. These efforts will be continued to accommodate the rapidly changing environment.

The RPOAs of the Republic of Korea wish to express some thoughts and opinions on the FCC's recent NPRM dated December 19, 1996. It is understandable that the FCC, as indicated in Rec.D.140, wishes to achieve cost-oriented principles as a way to

reduce its settlement deficit. Nevertheless, we feel it is necessary to express our concerns regarding some areas with the NPRM, which are not faithful to the D.140 and are not in keeping with the ITR guidelines for mutual agreement and national sovereignty.

In respect of various issues of the NPRM, the FCC has, on December 19, 1996, published its opinions and requested its counterparts in other countries to comment. On the issue of how the benchmark should be calculated, the Korean RPOAs' position is that the calculation should reflect existing carriers' initial investment and individual countries accounting rate policies other than the TSLRIC and/or TCP methods. On the issue of the term of enforcement, the methodology itself is not a recognized method and thus is not an appropriate subject for discussion. On the issue of enforcement itself, the RPOAs' position is that it may infringe upon the national sovereignty and that any problem arising under this issue should be resolved by mutual agreement.

OUR COMMENTS ON NPRM

I . INAPPROPRIATENESS OF BENCHMARK RATE METHODOLOGY

Under the auspices of the ITU, a cost study for accounting rate is actively being done in each regional study group in consideration of each region's specific situation. If we are forced to unilaterally apply the accounting rate proxy calculated by the FCC, it will not comply with the ITR Article 47, which encourages mutual agreement on accounting rates. It has been found that the TSLRIC and TCP relying on international transmission, international exchange and national extension for calculation of inbound traffic cost is similar to the TEUREM study¹, but quite different from the TAS study² under which cost shall be decided based on the consideration of total related costs and

¹ ITU Rec. D.300R

² ITU Rec. D.500R

the relative weight of incoming/outgoing and transit traffic. Therefore, ITU members' verification of the appropriateness of the FCC's TSLRIC and TCP methods seems to be a necessary step.

Moreover, in calculating inbound traffic cost, it must be noted that the cost incurred within an individual country can be assessed at the rate less than the actual cost due to the government policies (as they may reflect the government's concern with the return of investment and effects on the domestic economy). If this factor is overlooked and only the published cost is used to calculate the inbound traffic cost as is under TSLRIC or TCP method, this would give the carriers with more outbound traffics unfair enrichment to the detriment of the carriers with more inbound traffics. Therefore, a method of calculating cost researched and recognized by an internationally recognized institutions such as ITU should be selected as the benchmark in order to establish an internationally agreeable benchmark.

II . INAPPROPRIATE PROPORTIONMENT OF ACCOUNTING RATE

The FCC is taking advantage of the cost or the TCP based benchmark rate to reduce the accounting rate of the rest of the world without indicating their own benchmark rate. This means that in calculating the settlement rate of the US cost is the same as that of the counterpart country regardless of their own cost under the current international tradition of dividing the accounting rate on a 50:50 basis. If its aim is to achieve a true cost-oriented settlement rate, the FCC has to clarify the US benchmark and be willing to apply a non-50:50 proportionment.

The RPOAs' position, as clarified in the contribution³ of the ITU-T SG3 in November 1996, is that a truly cost-based accounting rate proportionment must precede an accounting rate reduction to achieve a true cost-oriented accounting rate system. The

³ "True Cost-oriented Accounting Shares", Korea Telecom, Seok-Hee Lee

Korean RPOAs' position is that a non-50:50 accounting rate proportionment is in keeping with the spirit of the ITU D.140 and D.155.

III MISLEADING OF ENFORCEMENT PROPOSALS

The accounting rate should be revised through mutual agreement between interested parties as is specified in ITR Article 47. Accordingly, the enforcement proposals which contain unilaterally determined benchmark rate and require other countries to abide thereby has an actual effect of unilaterally setting the price by the FCC for using facilities in international telephone services of counterpart countries and thus are not consistent with the national sovereignty endowed by the ITU.

Moreover, if the FCC intends to issue a stop-order on the payment of settlement of account or put undue pressure on the counterparts in negotiation, this would be inconsistent with the ITR's mutual agreement principle. The enforcement should be conducted on a mutually agreeable term in the spirit of the ITR.

We know that the US incremental settlement deficit is the result of a significant traffic imbalance rather than a defect of the current accounting rate regime.

Alternative calling procedures such as call-back, reverse charge service, and refiling service which the FCC has encouraged⁴ for the purpose of expanding the technically advanced US market, have contributed greatly to the settlement deficit of US carriers. The US carriers have been maximizing the use of these alternative communication method based on the incentives of their profit, and thus has been able to enlarge the business opportunities and increase their profits.

In consideration of the features of international telephone service's elasticity on

⁴ FCC Policy Statement on International Accounting Policy, January 31, 1996

consumers' income, it is natural that assuming other conditions are the same, the more outbound calls would be originated in the US than in Korea as the US income level is higher than the Korean income level. Even in such a case, the US can be assured of profits after payment settlements. It seems only natural that as the revenue for the US carriers increase, its settlement deficit will also increase.

Moreover, as the US outbound traffic volume has increased the US carriers can now enjoy improved opportunities in respect of the return of initial investment and reducing the cost. Under these circumstances applying a benchmark rate based on the bare cost of counterpart carriers and an attempt to reduce settlement rate accordingly can have an effect of favoring countries already in a favored position(e.g. the US) and disserving the interests of their less established counterparts, resulting in unfair competition.

CONCLUSION

The US settlement deficit is caused by the development and the FCC's encouragement of the use of alternative calling procedures which take advantage of a collection rate gap and an accounting rate gap between carriers for the purpose of expanding outgoing US traffic.

The carrier market will function in such a way that in the due course, such alternative calling procedures will lead to a reduction in the collection rate gap and accounting rate gap between carriers. Therefore, the FCC's unilateral and unreasonable requests can run counter to market principle in the telecommunication market.

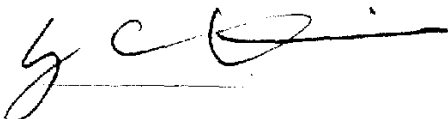
We do not have any objection in following the basic principles of the cost-orientation, however, we note that the details of the cost accounting such as accounting methods of settlement, division ratio of settlement collected, or application methods of settlement,

must be determined by using a commonly accepted procedures and methods. For this reason, we need the ITU's verification of the FCC's TCP and TSLRIC. Given the rapidly changing telecommunications environment, we believe that the ITU should create a new accounting rate system with the cooperation of various carriers. We wish to participate positively in the activities related to creating the cost accounting methodology of the ITU and hope that our comments would be fully considered and given attention in the process of legislating the FCC's NPRM.

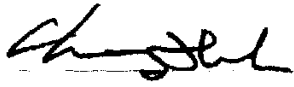
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